

Message Text

CONFIDENTIAL

PAGE 01 LONDON 09799 01 OF 03 251706Z

43

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 FEAE-00 /092 W

----- 045555

R 251651Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2336

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 09799

DEPARTMENT PASS TREASURY FOR SYVRUD, AND FRB

E.O. 11652:YGDS-1

TAGS: EFIN, EGEN, UK

SUBJECT: UK ECONOMIC PROGRAM

SUMMARY: AMBASSADOR CALLED ON CHANCELLOR OF THE EXCHEQUER
DENIS HEALEY TO DISCUSS GENERAL PROSPECTS FOR THE UK
ECONOMY AND THE PROSPECTS FOR BRINGING UK INFLATION UNDER
CONTROL. HEALEY OUTLINED A PROGRAM DESIGNED TO REDUCE
THE LEVEL OF INFLATION AND WAGE SETTLEMENTS TO 10 PERCENT
BY SEPTEMBER 1976. THIS PROGRAM INCLUDES AMENDMENT OF
THE PRICE CODE TO PREVENT EXCESSIVE PRICE INCREASES AS A
RESULT OF WAGE INCREASES; PUBLIC SECTOR ABSORPTION OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 09799 01 OF 03 251706Z

WAGE INCREASES THROUGH CUTS IN CURRENT EXPENDITURE; LEGAL

SANCTIONS TO PROHIBIT EMPLOYERS FROM PAYING EXCESSIVE WAGE SETTLEMENTS; AND A NON-GOVERNMENTAL BOARD TO MONITOR THE WAGE SETTLEMENTS. IF SUCH A PROGRAM FAILS, THE IMPOSITION OF STATUTORY INCOMES POLICY IS NOT RULED OUT.
END SUMMARY

1. AMBASSADOR CALLED ON CHANCELLOR OF THE EXCHEQUER DENIS HEALEY ON JUNE 24, ACCOMPANIED BY EMBASSY MINISTER FOR ECONOMIC AND COMMERCIAL AFFAIRS AND ASSISTANT FINANCIAL ATTACHE. ROGER G. LAVELLE, ASSISTANT SECRETARY FOR INTERNATIONAL FINANCIAL AFFAIRS AT H.M. TREASURY AND STEVE ROBSON, HEALEY'S PERSONAL SECRETARY, ALSO WERE PRESENT.

2. IN VIEW OF THE PLETHORA OF PRESS ARTICLES AND PUBLIC DEBATE OVER THE STATUS OF THE UK ECONOMY, AMBASSADOR REQUESTED THAT CHANCELLOR HEALEY GIVE AN OVERVIEW OF UK ECONOMIC PROSPECTS IN GENERAL, AND MORE SPECIFICALLY, THE PROSPECTS FOR BRINGING THE CURRENT LEVEL OF INFLATION UNDER CONTROL.

3. CHANCELLOR HEALEY NOTED THAT THE MOST POSITIVE ACHIEVEMENT IN RECENT MONTHS HAS BEEN THE PROGRESS MADE IN REDUCING THE BALANCE OF PAYMENTS DEFICIT. HE ACKNOWLEDGED THAT HIS ECONOMIC ADVISERS ARE DIVIDED IN THEIR ANALYSIS OF THE FACTORS LEADING TO AND THE SUSTAINABILITY OF THE CURRENT IMPROVEMENT. WHILE IT IS EXPECTED THAT THE EXCEPTIONALLY GOOD CURRENT ACCOUNT PERFORMANCE WITNESSED IN THE FIRST HALF OF THE YEAR WILL NOT BE FULLY MAINTAINED IN THE SECOND HALF, THE YEAR-ON-YEAR REDUCTION IN THE DEFICIT WILL BE SUBSTANTIAL. THE IMPROVEMENT RESULTS PRIMARILY FROM REDUCTION OF IMPORTS AS THE EFFECTS OF RECESSION SPREAD THROUGH THE UK ECONOMY. IT IS ANTICIPATED THAT THE VOLUME OF IMPORTS WILL SHOW SOME INCREASE, SECOND HALF-YEAR COMPARED TO FIRST, AS A RESULT OF RESTOCKING AND AN INCREASE IN OIL IMPORTS IN PREPARATION FOR THE WINTER MONTHS. ON THE OTHER HAND, THERE IS A MAJOR INCREASE IN EXPORTS TO OPEC COUNTRIES RESULTING FROM LARGE ORDERS PLACED SEVERAL MONTHS AGO WHICH WILL BE A POSITIVE FACTOR IN THE CURRENT ACCOUNT POSITION. IN THE APRIL 15 BUDGET STATEMENT IT WAS ANNOUNCED THAT A CURRENT

CONFIDENTIAL

PAGE 03 LONDON 09799 01 OF 03 251706Z

ACCOUNT DEFICIT OF ABOUT 2-1/2 BILLION POUNDS WAS EXPECTED IN 1975. IT NOW APPEARS, ACCORDING TO HEALEY, THAT THE DEFICIT WILL BE LESS THAN 2 BILLION POUNDS. THIS REDUCED LEVEL IS OF MAJOR IMPORTANCE WITH RESPECT TO BRITAIN'S ABILITY TO FINANCE THE CURRENT ACCOUNT DEFICIT. HEALEY SAID THAT, AT THIS POINT, THERE IS NO VISIBLE EVIDENCE OF A NEED TO GO TO THE IMF NOR TO THE EEC FACILITY FOR FINANCING ASSISTANCE.

4. HEALEY ALSO NOTED THAT WHILE OUTPUT HAS FALLEN DURING THE FIRST HALF OF THE YEAR, HE EXPECTED TO SEE SOME INCREASE DURING THE SECOND HALF. UNEMPLOYMENT, ON THE OTHER HAND, IS EXPECTED TO INCREASE AT ITS PRESENT RATE, REACHING THE 1 MILLION MARK TOWARDS YEAR END.

5. TURNING TO WHAT CHANCELLOR HEALEY DESCRIBES AS THE REAL PROBLEM, I.E. CONTROLLING THE UK'S RATE OF INFLATION, HE STATED THAT AS MUCH AS 8 PERCENT OF THE CURRENT YEAR-ON-

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 09799 02 OF 03 251712Z

43

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 FEAE-00 /092 W

----- 045679

R 251651Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2337

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 02 OF 03 LONDON 09799

YEAR INCREASE IN THE RETAIL PRICE INDEX (RPI) IS A DIRECT RESULT OF GOVERNMENTAL ACTIONS, E.G. RELAXATION OF RENT CONTROLS AND THE PRICE CODE; REDUCTION OF FOOD AND HOUSING SUBSIDIES; AND INCREASES IN INDIRECT TAXES. IN ADDITION, THE LOW RPI FIGURES FOR THIRD QUARTER 1974 WILL EXAGGERATE THE YEAR-ON-YEAR INCREASE DURING THIRD QUARTER 1975. FROM NOW ON, HOWEVER, THE MONTH-ON-MONTH FIGURES SHOULD SHOW A DECLINE IN THE RATE OF INCREASE FOR THE EFFECTS OF EARLIER ACTIONS HAVE NOW BEEN PASSED THROUGH. HEALEY ANTICIPATES THAT ON A MONTH-ON-MONTH BASIS, THE RPI WILL SHOW AN ANNUAL RATE OF INCREASE OF ABOUT 12 PERCENT AT YEAR END.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 09799 02 OF 03 251712Z

6. HEALEY REPORTED THAT HE NOW HAS FULL CABINET AGREEMENT ON A PLAN TO REDUCE THE LEVEL OF INFLATION AND WAGE INCREASES TO 10 PERCENT BY THE BEGINNING OF THE WAGE-ROUND NEXT FALL (1976). THIS LEVEL ASSUMES NO INCREASE IN COMMODITY PRICES GENERALLY, A SMALL INCREASE IN OIL PRICES THIS AUTUMN, AND A STABLE POUND EXCHANGE RATE. ALL CABINET MEMBERS AGREED TO THE 10 PERCENT TARGET FOR WAGE SETTLEMENTS WITH AN IMPLIED FLAT RATE INCREASE OF 5 TO 6 POUNDS EXCEPT MICHAEL FOOT (SECRETARY OF STATE FOR EMPLOYMENT) WHO WANTED THE TARGET SET AT 15 PERCENT.

7. THE GOVERNMENT'S TASK OF AGREEING ON A 10 PERCENT TARGET IS MADE MUCH EASIER, HEALEY CONTINUED, AGAINST THE CURRENT BACKDROP OF RESPONSIBLE UNION SUPPORT FOR A TARGET GUIDELINE. LEN MURRAY (TUC GENERAL SECRETARY) HAS PROPOSED WAGE SETTLEMENTS BE BASED ON A TARGET RATE OF INFLATION NEXT YEAR RATHER THAN ON PAST RATES OF INCREASE. MURRAY'S PROPOSAL, HOWEVER, DID NOT CONTAIN A TARGET RATE: NOW THE GOVERNMENT WILL GIVE THEM THE TARGET. JACK JONES (GENERAL SECRETARY, TRANSPORT AND GENERAL WORKERS UNION) HAS LAUNCHED THE IDEA OF A FLAT RATE INCREASE BASED ON A BONUS CONCEPT SO AS NOT TO APPLY TO OVERTIME PAY. HOWEVER JONES' PROPOSAL OF A FLAT INCREASE OF 10 POUNDS PER WORKER IS TOO HIGH ACCORDING TO HEALEY AND, IN ANY CASE, THE CONCEPT MOST LIKELY WOULD BE OPPOSED BY SKILLED WORKERS.

8. HEALEY THINKS THE MAJOR PROBLEM WITHIN THE LABOR UNIONS ON THESE VARIOUS PROPOSALS IS THAT NEGOTIATIONS ARE TAKING PLACE WITHOUT THE FULL SUPPORT OF THE TUC EXECUTIVE COUNCIL. WITHIN THE TRADES UNION CONGRESS (TUC) THERE ARE THREE FACTIONS, THOSE WHO FAVOR THE IDEA OF A FLAT RATE INCREASE, THOSE WHO ADVOCATE THE MURRAY PROPOSAL OF A TARGET RATE BASED ON THE EXPECTED RATE OF INFLATION IN THE COMING YEAR, AND THOSE WHO WANT TO ABANDON THE WHOLE IDEA OF A SOCIAL CONTRACT.

9. GIVEN CABINET AGREEMENT ON THE 10 PERCENT WAGE SETTLEMENT/INFLATION RATE TARGET, AMBASSADOR RICHARDSON QUERIED WHAT IS THE FORMULA FOR ACHIEVING THIS TARGET, RECOGNIZING THAT THE MAJOR PROBLEM IS COMPLIANCE WITH THE TARGET
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 09799 02 OF 03 251712Z

GUIDELINES. CHANCELLOR HEALEY RESPONDED THAT HE DOES NOT FEEL THERE IS A NEED FOR A UNIVERSALLY APPLIED METHODOLOGY THAT IS, THE ATTAINMENT OF THE TARGET IS BEST HANDLED ON A COMPANY-BY- COMPANY, INDUSTRY-BY-INDUSTRY BASIS, FOR NO STRICTLY UNIFIED APPROACH IS APPLICABLE TO EVERY CASE. IN THE PUBLIC SECTOR, HEALEY PRESENTED THE IDEA THAT WAGE SETTLEMENTS WOULD COME OUT OF CURRENT SPENDING. THE INCREASES WOULD NOT BE ALLOWED TO BE PASSED ON IN THE FORM OF HIGHER PRICES NOR REFLECTED IN THE FORM OF REDUCED CAPITAL EXPENDITURE. HE CONCEDED THAT THIS WOULD RESULT IN A REDUCTION IN STAFF AND SERVICES AND UNDOUBTEDLY LEAD TO INDUSTRIAL DISPUTES. BUT, HE ADDED, THE GOVERNMENT MUST BE WILLING TO MAKE A STAND EVEN IN THE FACE OF STRIKE ACTION. WHILE THE RULES FOR PUBLIC SECTOR ADHERENCE TO THE TARGET GUIDELINES ARE STILL IN THE FORMULATION STAGE, HE ANTICIPATES A PUBLIC ANNOUNCEMENT WITHIN A WEEK. IN THE PRIVATE SECTOR, HEALEY SAID THAT, HISTORICALLY, SANCTIONS IMPOSED ON EMPLOYEES HAVE NEVER BEEN SUCCESSFUL. THEREFORE, THE IDEA WOULD BE TO DISALLOW ANY PART OF A PRICE INCREASE RESULTING FROM WAGE INCREASES BEYOND THE NORM (CURRENTLY 80 PERCENT OF SUCH INCREASES CAN BE PASSED ON IN THE FORM OF HIGHER PRICES) AND IN ADDITION, THE GOVERNMENT WOULD INTRODUCE STATUTORY SANCTIONS MAKING IT ILLEGAL FOR EMPLOYERS TO PAY EXCESSIVE WAGES.

10. HEALEY ACKNOWLEDGED THAT THERE ARE MAJOR DIVISIONS IN BOTH THE LABOR AND CONSERVATIVE PARTIES OVER THE INTRODUCTION OF STATUTORY WAGE POLICIES. RECOGNIZING THE DIFFICULTIES IN GETTING SUCH A POLICY THROUGH PARLIAMENT, HE NONETHELESS CONCEDED THAT IN THE END, THE UK WILL PROBABLY HAVE TO GO TO STATUTORY LIMITATIONS. HE CITED THE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 09799 03 OF 03 251717Z

43

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05 FEAE-00 /092 W

----- 045816

R 251651Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2338

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 03 OF 03 LONDON 09799

ONLY CASE IN BRITAIN OF AN "EFFECTIVE INCOMES POLICY" AS BEING IN THE POST-WAR PERIOD AND THAT WAS "PURELY" VOLUNTARY. THE PROBLEM WITH A STATUTORY INCOMES POLICY IN THE CURRENT PERIOD IS THAT RELAXATION WOULD PROBABLY COINCIDE WITH A GENERAL INCREASE IN WORLD COMMODITY PRICES AND EXACERBATE THE INFLATIONARY PRESSURES THEN.

11. AMBASSADOR RICHARDSON COMMENTED THAT THE SUCCESS OF SUCH POLICIES IS A DIRECT FUNCTION OF THE DEGREE TO WHICH GOVERNMENTS CAN ACHIEVE A BROAD BASE OF PUBLIC SUPPORT, AND, IN THE CASE OF BRITAIN, THE ATTAINMENT OF RANK AND FILE UNION SUPPORT. GIVEN THE TIME FRAME WHICH HEALEY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 09799 03 OF 03 251717Z

EARLIER OUTLINED, HOW DOES THE GOVERNMENT PLAN TO LAUNCH AN EFFECTIVE PROGRAM TO ELICIT THE REQUISITE PUBLIC SUPPORT. CHANCELLOR HEALEY RESPONDED THAT THERE IS WIDESPREAD EVIDENCE THAT THE PUBLIC RECOGNIZES THAT THE

COUNTRY IS IN TROUBLE AND THE MAJOR POLLS INDICATE THAT A MAJORITY OF WORKERS FAVOR SOME TYPE OF STATUTORY POLICY. IN HEALEY'S OPINION, THE PROBLEM IS NOT TO CONVINCE THE PUBLIC THAT THE SITUATION REQUIRES ACTION BUT RATHER TO CONVINCE THEM THAT THE PROGRAM WILL BE FAIR. IF THE PEOPLE CAN BE CONVINCED THAT A PROGRAM SUCH AS HE OUTLINED WOULD WORK FAIRLY FOR ALL, THEN THE VAST MAJORITY WILL ACCEPT THE RESTRAINTS. THE DIFFICULTY, HE CONTINUED, LIES IN MAINTAINING PUBLIC SUPPORT. THE INTRODUCTION OF SUCH POLICIES GENERALLY IS WELCOMED BOTH DOMESTICALLY AND INTERNATIONALLY, BUT DOMESTIC SUPPORT BEGINS TO DIMINISH WITHIN SIX TO TWELVE MONTHS. ON THE OTHER HAND, HE ADDED, TWELVE MONTHS SHOULD BE A SUFFICIENT AMOUNT OF TIME TO BREAK THE BACK OF INFLATIONARY EXPECTATIONS.

12. AMBASSADOR RICHARDSON QUERIED WHAT MECHANISMS ARE EN-VISAGED TO MONITOR THE ADHERENCE TO THE PROSCRIBED GUIDE-LINES. CHANCELLOR HEALEY REPLIED THAT WITH ANY POLICY, WITH THE EXCEPTION OF AN INDEXATION SCHEME WHICH IS AUTO-MATIC, THERE IS A CLEAR NEED FOR A NON-GOVERNMENTAL BODY TO MONITOR THE SETTLEMENTS. THE CURRENT PROBLEMS ARE SO ACUTE THAT THE GOVERNMENT CANNOT ACCEPT ANOMALIES, THERE-FORE, NO NEED FOR AN ANOMALIES BOARD. HE ALSO NOTED THAT "SPECIAL CASES" HAVE ALREADY BEEN TAKEN CARE OF IN THE LAST ROUND OF WAGE SETTLEMENTS.

13. AMBASSADOR COMMENTED THAT CHANCELLOR HEALEY IS WELL CAST FOR THE ROLE IN LEADING THE FIGHT AGAINST INFLATION. HE VIEWED THE BRITISH PEOPLE AS EAGER TO RESPOND TO GUID-ANCE AND LEADERSHIP WITH LITTLE DEBATE OVER THE NEED FOR POLICY ACTION. CHANCELLOR HEALEY RESPONDED THAT HE IS CONVINCED THAT EFFECTIVE MECHANISMS ARE AVAILABLE. THE MOST URGENT TASK IS THE IMMEDIATE IMPLEMENTATION AND THE MAINTENANCE OF EFFECTIVENESS OF THESE MECHANISMS.

14. TWO ADDITIONAL TOPICS, THE US/UK DOUBLE TAXATION TREATY AND THE PETROLEUM AND SUBMARINE PIPELINES BILL, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 09799 03 OF 03 251717Z

WERE ALSO DISCUSSED AND ARE REPORTED SEPARATELY.

RICHARDSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON09799
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750220-0642
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750618/aaaaapvi.tel
Line Count: 377
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2003 by ElyME>; APPROVED <14 OCT 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UK ECONOMIC PROGRAM SUMMARY: AMBASSADOR CALLED ON CHANCELLOR OF THE EXCHEQUER
TAGS: EFIN, EGEN, UK, (HEALY, DENIS)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006